



National Audit Office

**BRIEFING FOR THE
BUSINESS, INNOVATION
AND SKILLS COMMITTEE
OCTOBER 2009**

Performance of the Department for Innovation, Universities and Skills 2008-09

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This briefing has been prepared for the Business, Innovation and Skills Committee to provide an overview of the work and performance of the former Department for Innovation, Universities and Skills in the financial year 2008-09 and subsequent months.

Contents

Summary **4**

Part One

Financial performance in
2008-09 **11**

Part Two

Delivery performance **18**

Part Three

Department Capability **34**

Annex One

The Department's delivery
partners **37**

Annex Two

Departmental performance
against Comprehensive
Spending Review
2007 Public Service
Agreements **39**

Annex Three

Departmental performance
against Departmental
Strategic Objectives **41**

Annex Four

Departmental performance
against Spending Review
2004 Public Service
Agreements **43**

Annex Five

NAO reports relating to
the Department **45**

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Summary

Aim and scope of this briefing

1 This briefing has been prepared for the Business, Innovation and Skills Committee to provide an overview of the work and performance of the former Department for Innovation, Universities and Skills (the Department) in the financial year 2008-09 and subsequent months.

2 It is based on the Departmental Report 2009, and it draws upon the work of the National Audit Office (outlined at Annex 5) together with material from other external and internal reviews of departmental performance. The briefing has been shared with the Department to confirm that the evidence presented is factually accurate, but the commentary and views expressed are the sole responsibility of the NAO.

The Department's role and priorities

3 The Department was created in June 2007, with the role of promoting the future prosperity of the UK through investment in post-19 education, skills, innovation, science and research. As stated in the Departmental Report, it had a major role in the promotion of economic success and social justice in the UK. Responsibility for further and higher education covered England only, and the Department's other activities were UK-wide.

4 On 5 June 2009, the Department was merged with the Department for Business, Enterprise and Regulatory Reform (BERR) to create the Department for Business, Innovation and Skills (BIS). BIS brings together the work of the Department, with the responsibilities of BERR in the regulatory and enterprise environment, with the aim of building Britain's capability to compete in the global economy. Information in this briefing about the work of the Department after June 2009 should be taken to refer to BIS.

5 Numerous agencies and Non Departmental Public Bodies (NDPB) lay within the Department's area of responsibility, and most of the delivery of the Department's objectives was carried out through these partner organisations (Annex 1). Two new NDPB companies, the Learning and Skills Improvement Service and the UK Commission for Employment and Skills, were created during 2008-09.

6 The Apprenticeships, Skills, Children and Learning Bill 2008 had by July 2009 reached the Committee Stage in the House of Lords. The Bill will dissolve the Learning and Skills Council (LSC) in 2010 and reallocate its responsibilities to local authorities and two new NDPBs, the Skills Funding Agency (SFA) and the Young People's Learning Agency for England (YPLA). Around a quarter (24 per cent) of the Department's net expenditure in 2008-09 related to Grant-in-Aid to the LSC.

7 This briefing contains three parts:

- Part 1 reviews the financial performance of the Department;
- Part 2 considers the Department's performance against the targets set out in its Departmental Strategic Objectives and Public Service Agreements; and
- Part 3 examines the capability of the Department to deliver against its objectives.

Financial performance

8 The net resource outturn for 2008-09 was £18,544 million, an underspend of £455 million against the Department's Supply Estimate. Resource spend was broadly split into two categories:

- Request for Resources 1 aims to help build a competitive economy by creating opportunities for everyone to develop their learning and skills and by creating excellence in science, research and innovation.
- Request for Resources 2 seeks to increase scientific excellence in the UK and maximise its contribution to society.

9 On Request for Resources 1, which makes up 80 per cent of total outturn, the underspending primarily related to Higher Education (£87 million) and Support for Students (£103 million), as it transpired that contingency amounts that had been set aside for the potential impact on student loans of new accounting standards were not required; and the introduction of a new support system for students led to increased uncertainty about the expected outturn. The LSC also drew down £50 million less in Grant-in-Aid than anticipated (paragraph 1.4).

10 On Request for Resources 2, a total underspend of £188 million resulted from the Main Estimate 2008-09 providing a higher level of Resource than the Department intended to incur (paragraph 1.4).

11 Compared to 2007-08, there was an increase in net outturn by £1.2 billion in 2008-09, predominantly due to increases in Grant-in-Aid for the LSC, Medical Research Council, the Higher Education Funding Council for England and the Technology Strategy Board (paragraph 1.6).

12 The Department's total net assets at 31 March 2009 were £20.8 billion, an increase of £3.8 billion from 31 March 2008, due to expansion of the student loan book (paragraph 1.8).

13 Under the Comprehensive Spending Review 2007, the Department was set a target of delivering efficiency savings totalling £1,543 million by 2010-11. The target was increased to £1,943 million in the 2009 Budget. The Department is confident that it will meet the revised target, forecasting it will exceed the target by £149 million (paragraph 1.20).

14 The Comptroller and Auditor General (C&AG) gave an unqualified opinion on the Department's Resource Accounts. Of the NDPBs audited by the C&AG, all but two were certified by the summer recess or soon after. All the accounts that have been certified received an unqualified audit opinion (paragraph 1.11).

15 The Department's Statement on Internal Control reports improvement in the overall control environment in the Department; however, as in 2007-08, internal control issues were encountered relating to oversight of its delivery partners, most notably the LSC. A major issue arose in the management of the Further Education Capital Programme, when the LSC, insufficiently overseen by the Department, failed to manage its capital budget, forcing the suspension of colleges' capital projects that had received 'approval in principle' (paragraph 1.14).

Delivery performance

16 The Department's performance should be viewed in the context of it continuing to build a new organisation and deliver against commitments inherited from its predecessors. Given its responsibilities, it also needed to play a key part in developing the Government's response to the global economic downturn.

17 The 2007 Comprehensive Spending Review (CSR07) set the Government's performance framework for 2008-11 and reduced the total number of Public Service Agreements (PSAs) across Government from over 100 to 30. During 2008-09, the Department was responsible for leading delivery for two PSAs (**Figure 1**).

18 The CSR07 framework required departments to develop a set of Departmental Strategic Objectives (DSOs) for the 2008-11 spending period. The Department set itself six DSOs (outlined in paragraph 2.2), which directly support the wider government objectives set out in its two PSAs.

Figure 1

CSR07 Public Service Agreements for which the Department is responsible

- **PSA 2** Improve the skills of the population, on the way to ensuring a world-class skills base by 2020 – not yet assessed.
- **PSA 4** Promote world-class science and innovation in the UK – making some progress.

Source: DIUS Departmental Report, Chapter 3

State of the economy – (paragraphs 2.7 to 2.15)

19 The onset of the global economic downturn had substantial implications for the Department in 2008-09. The Department responded quickly with a number of initiatives, which included further flexibility in Train to Gain, promotion of apprenticeships via public sector procurement and, together with the Department for Work and Pensions, help for people made redundant to develop their skills to move back into sustainable employment. It is too early to assess the impact of these measures in helping to tackle the effects of the downturn.

20 The Department's Board identified the impact of the recession as a key risk to delivery against its objectives, affecting both employer and learner demand, and also the Department's delivery partners, including those in the private and third sectors. Increased demand for higher education has led to increased pressure on financial resources.

Machinery of Government changes – (paragraphs 2.16 to 2.22)

21 The Department has been managing continuing changes within itself, its arm's length bodies, and the sectors in which it operates. The creation of the Department for Business, Innovation and Skills came just two years after the Department for Innovation, Universities and Skills was itself created. While some stakeholders such as Universities UK responded positively to the most recent Machinery of Government changes, concerns have been expressed regarding the timing of the merger and the breadth of the new Department's responsibilities.

22 The new Department must ensure that key systems and processes from the two predecessor departments are integrated and re-organised, without disrupting service delivery, and that staff are retained and motivated through a period of further change. The costs relating to the merger need to be monitored.

Widening access to skills – (paragraphs 2.23 to 2.45)

23 The Department has been active in widening access to skills during the year, through increased expenditure on Train to Gain, the establishment of a further two National Skills Academies, and extension of the Apprenticeships Programme. The Skills Pledge continued to be taken up by employers.

24 The findings of a number of recent NAO reports are relevant:

- The report on Train to Gain (July 2009) concluded that although employers and learners have reported benefits from training, the programme has not provided good value for money over its full lifetime. The Department and LSC did not agree with the NAO's overall conclusion.
- The report on widening participation in higher education (June 2008) found that there had been some progress in increasing the participation of under-represented groups, but that there was scope to improve value for money.

- The report on the retention of students in higher education (July 2007) found that although higher education institutions in England perform strongly internationally, wide differences in retention rates between institutions indicated considerable scope for improvement.
- The report on the Offenders' Learning and Skills Service (March 2008) concluded that the value for money achieved by the Service was below the level of which the Service was capable in time.
- The 'Skills for Life' report (June 2008) found that performance in improving the basic skills of the adult population was strong; however greater progress was needed in strengthening numeracy skills, and in engaging hard-to-reach learners.

A demand-led skills system – (paragraphs 2.46 to 2.51)

25 The policy to move further towards a demand-led skills system has been seen in Train to Gain and the development of Skills Accounts. In March 2008, the Department announced changes intended to make the skills system more responsive to local needs. These included the dissolution of the LSC in April 2010, and the transfer of its responsibilities to a new Skills Funding Agency and Young People's Learning Agency, and to local authorities. The allocation of responsibilities is still being worked through, and the Department must ensure that the change process does not compromise the delivery of the LSC's programmes.

26 The UK Commission for Employment and Skills (UKCES) was created in April 2008 to advise the Department on its employment and skills strategy. In response to a request from the Secretary of State, in October 2008 UKCES published a series of recommendations to simplify the post-19 skills system for employers. The Commission's interim assessment of progress against these recommendations was that good progress had been made, but there was still more to be done, particularly to reduce bureaucracy. The Commission has undertaken a consultation exercise with employers and stakeholders to inform further work in this area.

27 Sector Skills Councils (SSCs) are a key element of the Department's work to create a skills system that is intended to be responsive to employers' needs. At the request of UKCES, the NAO has been conducting independent performance assessments of the 25 SSCs, which are informing UKCES' recommendations to Ministers as to whether each SSC should be relicensed. Of the ten SSCs reviewed in the first two tranches, eight have been relicensed.

Infrastructure – (paragraphs 2.52 to 2.60)

28 The Department continued to invest in the renewal of the further education estate during the year. However, there have been serious problems regarding the implementation of this programme. The NAO report on the programme in July 2008 found that good progress had been made in renewing the estate, but it also highlighted concerns as to the affordability of the programme within the LSC's budgets. In December 2008, the Department became aware of a large gap between the costs of projects approved in principle and the level of funding available, and announced a three month suspension of approvals. In July 2009, reports by the Committee of Public Accounts and the Innovation, Universities, Science and Skills Committee concluded that there had been a very serious failure in the management of the programme. Following its moratorium on project approvals, the LSC approved eight projects in March 2009 and another 12 in August 2009.

Performance of the Higher Education Funding Council for England (HEFCE) and the LSC – (paragraphs 2.61 to 2.66)

29 Both HEFCE and LSC play essential roles in the Department's delivery of skills objectives, comprising 65 per cent of the Department's total net operating expenditure in 2008-09. HEFCE has six strategic aims, progress against which is monitored through 22 targets. Against these targets, HEFCE reported that during 2008-09 three were achieved, 16 were on target to be achieved, two were partially on target and one was below target. The majority of its funds are allocated to institutions for teaching and research.

30 The LSC is funded by both the Department and the Department for Children, Schools and Families. Of the programme costs relating to the Department, the three largest areas of expenditure in 2008-09 were Further Education 19+ participation, Train to Gain and FE capital programmes. Concerns about the governance of the LSC, which were raised by its internal auditors, continued through 2008-09.

Science and Innovation – (paragraphs 2.67 to 2.72)

31 Work undertaken by the Department to encourage science and innovation during the year included the publication of the first Annual Innovation Report, the development of the Whitehall Hub for Innovation and the Small Business Research Initiative, and funding to provide world-class research facilities. The Technology Strategy Board is also investing over £1 billion to encourage innovation in businesses between 2008 and 2011.

32 The NAO report on innovation across central government (March 2009) found that although central government organisations recognise the importance of innovation, confusion about its purpose prevents them from taking opportunities to innovate. The report recommended that the Department assist other departments to develop strategies for innovation, and spread good practice.

The Department's capacity and capability

33 The Department's Capability Review (December 2008) outlined four key areas for action, to ensure that the Department meets its current and future delivery challenges (paragraph 3.2):

- to strengthen the leadership to deliver the benefits of a new department, starting with the Board;
- to use the vision to develop an evidence-based strategy that informs staff and stakeholders and enables prioritisation;
- to strengthen relationships with delivery partners in order to better manage performance and risk in the Department's delivery chains; and
- to resolve outstanding systems and process issues to ensure that staff motivation and confidence do not disappear.

34 The results of the Department's staff survey in 2008 found that 76 per cent of staff understood how their work contributed to the Department and 33 per cent considered that the Department was well managed. The Department exceeded the Civil Service benchmark for 14 out of 30 indicators (paragraph 3.7).

35 The review of the Department's 2008 Departmental Report by the Innovation, Universities, Science and Skills Select Committee found the report to be inaccessible, containing unsupported assumptions, and failing to present a clear picture of the Department. In response, the Department stated that it would improve the accessibility and accuracy of data in the 2009 Departmental Report (paragraph 3.8).

Part One

Financial performance in 2008-09

1.1 This part examines the Department's financial performance in 2008-09, risk management arrangements and progress against efficiency targets.

Financial outturn 2008-09

1.2 The Department's overall net resource outturn for 2008-09 was £18,544 million against a supply estimate of £18,999 million, representing an underspend of £455 million (2.4 per cent).¹ Resource spend was broadly split into two categories:

- Request for Resources 1 (RfR1) aims to help build a competitive economy by creating opportunities for everyone to develop their learning and skills and creating excellence in science, research and innovation.
- Request for Resources 2 (RfR2) seeks to increase scientific excellence in the UK and maximise its contribution to society.

Eighty-one per cent of the total net resource outturn in 2008-09 was accounted for by expenditure under RfR1.

1.3 In its review of the 2008 Departmental Report, the Innovation, Universities and Skills Committee expressed concerns about budgetary management and the accuracy of the Department's forecasting.² The Committee commented on the budgetary adjustments which took place in 2007-08, as overspending in higher education was met by underspending in further education. In our report on Train to Gain³, published in July 2009, we referred to underspending of a total of £151 million in 2006-07 and 2007-08, because learner numbers did not grow as quickly as forecast. The Department had re-allocated the funds to meet shortfalls in other programmes, including higher education. Increased demand in 2008-09 meant that the Department exceeded its budget on Train to Gain by £50 million.⁴

¹ *Department for Innovation, Universities and Skills Resource Accounts 2008-09*, HC 457, July 2009.

² Innovation, Universities, Science and Skills Select Committee: *DIUS' Departmental Report 2008*, Third Report of Session 2008-09, HC 51-I, December 2008, paragraphs 58-64.

³ National Audit Office: *Train to Gain: Developing the skills of the workforce*, HC 879, Session 2008-09, July 2009.

⁴ National Audit Office: *Train to Gain: Developing the skills of the workforce*, HC 879, Session 2008-09, July 2009.

1.4 As reported in the Department's Resource Accounts, key reasons for the underspend in 2008-09 are as follows:

- An underspend on Higher Education of £87.1 million was almost entirely made up of contingency amounts that were drawn but not, in the event, required. These were: a transfer of £20 million of near-cash to cover expected increases in student grants because of higher student numbers; draw down of £50 million in non-cash End Year Flexibility and a transfer of £15 million of non-cash underspend to higher education from support for students (see below) to prepare for the potential impact of new accounting standards on financial instruments on student loans.
- Higher Education Support for Students had an underspend of £103.3 million. 2008-09 was the first year of a system of support using new income thresholds, and the forecast outturn proved to be too high.
- The LSC drew down £50 million less Grant-in-Aid than anticipated. The LSC had requested a level of Grant-in-Aid to facilitate potential late transfers between budget lines and for balance sheet movements, which proved to be £50 million lower than expected.
- The outturn for RfR2 was £188 million lower than the Supply Estimate. The Main Estimate for 2008-09 provided a higher level of Resource than the Department intended to incur, which could not be completely offset in the 2008-09 Supplementary Estimates. The Department kept to the original spending plans agreed with Treasury under the CSR07 settlement, and did not spend any of the additional resource allocated. This created underspends in the bodies covered by RfR2, which predominantly comprises expenditure of the Research Councils.

Analysis of spend

1.5 **Figure 2** shows Net Operating Costs in 2008-09 by Departmental Strategic Objective, including a comparison of 2008-09 outturn to the prior year.

1.6 As detailed in the Department's Resource Accounts, the increase in the net resource outturn of £1.2 billion between 2008-09 and 2007-08 is mainly attributable to:

- £727 million increase in LSC Grant-in-Aid, for programmes of DIUS and DCSF to reflect increased learner numbers across 16-18 Further Education (DCSF), School Sixth Forms (DCSF), Apprenticeships (DCSF and DIUS) and Train to Gain (DIUS) and LSC capital (DIUS and DCSF);
- £338 million increase in Medical Research Council Grant-in-Aid; this partly reflects that the 2007-08 Grant-in-Aid drawdown was supplemented by £212 million from MRC cash reserves; and it includes £68 million for land purchases and funding increases;

- £171 million increase in total HEFCE Grant-in-Aid (across both Requests for Resources) to fund planned growth of 20,000 full-time equivalents in core fundable students in the financial year, maintain the unit of funding for teaching and learning in real terms and ensure that levels of research funding are maintained in real terms; and
- £72 million increase in Grant-in-Aid to the Technology Strategy Board to reflect a full year's outturn in 2008-09, compared to nine months of operation in 2007-08.

Administration spend

1.7 Net Administration costs in 2008-09 were £76.8 million (2007-08: £68.9 million), compared to an Administration budget of £77.7 million. The proportion of gross Administration costs to total gross resource outturn in both years was 0.3 per cent.

Figure 2
Net Operating Costs by Departmental Strategic Objective

Objective	Gross costs £000	2008-09		2007-08	
		Income £000	Net costs £000	Net costs £000	Net costs £000
1 Accelerate the commercial exploitation of creativity and knowledge, through innovation and research.	407,816	(39,595)	368,221	293,792	
2 Improve the skills of the population throughout their working lives.	8,228,907	(5,388,162)	2,840,745	2,914,714	
3 Build social and community cohesion through improved social justice and economic opportunity.	4,813,548	(2,905,038)	1,908,510	1,732,877	
4 Pursue global excellence in research and knowledge and promote the benefits of science in society.	3,634,544	(5,557)	3,628,987	3,078,298	
5 Strengthen the capacity, quality and reputation of the further and higher education systems.	9,821,993	(49,947)	9,772,046	9,343,461	
6 Encourage better use of science in government and foster public service innovation.	26,753	(2,449)	24,304	20,047	
Net operating costs	26,933,561	(8,390,748)¹	18,542,813²	17,383,189	

Source: DIUS Resource Accounts 2008-09

NOTES

- ¹ The majority of this income (£7,410 million) relates to income from DCSF for its contribution to LSC Grant-in-Aid. £876 million comes from capitalised interest on student loans.
- ² The difference of £1,082,000 between net operating costs in Figure 2 and net resource outturn discussed in paragraph 1.2 is a result of income payable to the Consolidated Fund.

Key areas of the balance sheet

1.8 The Department's total net assets were £20.8 billion at 31 March 2009, an increase of £3.8 billion (22 per cent) from the position at 31 March 2008. The student loan book is by far the largest item on the Department's balance sheet, totalling £20.7 billion at the balance sheet date (£17.3 billion in 2007-08). Since 1 April 2009, the Student Loans Company has issued £1,016 million of tuition fee loans, £909 million of maintenance loans and £413 million of grants in respect of academic year 2008-09.

1.9 The Sale of Student Loans Act, enacted on 22 July 2008, enabled but did not commit the Department to sell its student loan assets. In March 2009, the Minister for Higher Education and Intellectual Property announced that the loan sale had been postponed. The Department's 2008-09 resource accounts present the student loans portfolio on the basis that there was no intention to sell the loans at 31 March 2009. This treatment was consistent with prior years, and continues to reflect the valuation basis (amortised cost) appropriate under the Government's Financial Reporting Manual.

1.10 The Department's creditors fell by £227 million between 2007-08 and 2008-09. This is explained by the payment of balance owed to the Department for Business, Enterprise and Regulatory Reform and a decrease in accruals. The overall value of land and buildings has fallen by £13.9 million owing to a downward revaluation of the National Physical Laboratory land and buildings.

Financial audit findings

1.11 The NAO gave an unqualified audit opinion on the Department's 2008-09 Resource Accounts. The 2008-09 accounts of all but two of the NDPBs audited by the C&AG were certified by the recess, or shortly after.

Governance and risk management

1.12 The Chief Executives of the Department's NDPBs and Agencies (Annex 1) are responsible for maintaining and operating a system of internal control in their own organisations. The Department's responsibility is to establish effective governance to oversee these organisations and monitor performance and risk. The Department's Capability Review, published in December 2008 (paragraph 3.2), identified this responsibility as a key area for action.

1.13 Some 80 per cent of the Department's net operating expenditure was funding disbursed by the LSC, HEFCE and the Research Council NDPBs. Much of the assurance on the appropriate use of this funding derives from the work of the assurance teams within these NDPBs. The teams employ various approaches to obtain this assurance, reflecting the different regulatory needs and other differences in the sectors in which they operate. Similarly, the Department's overall relationships with its NDPBs vary to reflect circumstances. For example, the Department has set up a transition programme board to oversee the LSC transformation process, which involves considerable organisational change in a major area of the Department's business.

1.14 In 2008-09, with the exception of controls over corporate risk management, capital funding and governance of the Education Maintenance Allowances, Internal Audit gave LSC 'substantial assurance' over its control systems – an improvement on the 'restricted assurance' opinion of 2007-08.⁵ Despite improvements, the LSC's Statement on Internal Control states that, 'risk management is not yet fully embedded in the LSC and further work is still required which should focus on the early identification and escalation of risks'.⁶

1.15 Concerns over the LSC's management arrangements and the Department's oversight of its NDPBs, were raised by Sir Andrew Foster in his review of the Further Education Capital Programme (paragraph 2.54). Poor management by the LSC and the Department meant that in December 2008, the Department and LSC became aware that the programme budget had been severely overcommitted. The NAO's report on Train to Gain raised similar concerns, highlighting the risk that a lack of management information within LSC could lead to overspending on the Train to Gain programme. The NAO found that the management of the programme needs to be improved if it is to be sustainable (paragraph 2.28).

Performance against efficiency targets

Spending Review 2004 targets

1.16 Against the £622 million target for efficiency savings allocated to the Department on its formation in June 2007, the final net efficiency gains reported at 31 March 2008 were £887 million, of which £558 million were cash-releasing, an over-achievement of £265 million.

1.17 Against a target of 233 relocations of posts from London and the South East by March 2010, the Department and its partner organisations had relocated a total of 158. The remaining 65 posts are planned to be relocated by the target date.

Comprehensive Spending Review 2007 targets

1.18 Value for money improvements generating cash-releasing savings of £1,543 million by 2010-11 were set out in the 2007 Comprehensive Spending Review. Unlike the savings required in the 2004 Spending Review (SR04), all savings were to be cash-releasing and reported net of costs. Of this total, the Department set a target of £668 million gains to be achieved in 2008-09. Targets were increased in the 2009 Budget, which required the Department to make additional £400 million value for money savings over the CSR07 period, bringing the total departmental contribution to the Government's targets to £1,943 million.

⁵ Substantial assurance indicates that the LSC has operated basically sound systems, but there were some weaknesses that prevented giving a full assurance.

⁶ The Learning and Skills Council: *Annual Report and Accounts for 2008-09*, July 2009.

1.19 Annex 2 of the 2009 Departmental Report details the sources of efficiency savings in 2008-09. It outlines the work to be undertaken to enable the Department to achieve its CSR07 target, and the additional £400 million of savings. Train to Gain is intended to deliver £170 million towards the total through efficiencies made in the number of successful first full level 2 learners when compared to the further education route. In responding to the economic downturn, the Department announced a number of initiatives which will affect future efficiency targets. The Department will analyse the effect of these changes, and quantify their effect in order to assess their impact on achievement of the targets in future.

1.20 Against the target of £668 million to be achieved in 2008-09, the Department has reported £626 million of savings confirmed so far. This includes £472 million of savings, plus £154 million of over-delivery of gains achieved during SR04, which Treasury agreed could be carried over to count against CSR07 targets. The Department was confident that the total gains required in the CSR07 years would be achieved (**Figure 3**). It forecast excess gains of £149 million over the revised total of £1,943 million, giving forecast total gains of £2,092 million over the period.

NAO coverage

1.21 In its report on the Train to Gain⁷, the NAO reported that the increased flexibility of the programme from 2008 was reducing the proportion of learners achieving their first level 2 qualification. This effect makes it less certain that the planned efficiency savings from the programme will be achieved.

Figure 3
Efficiency gains: CSR07

	2008-09 forecast gains (£m)	2008-09 confirmed gains (£m) ¹	2009-10 forecast gains (£m)	2010-11 forecast gains (£m)	Expected additional savings under 2009 Budget	Total 2010-11 forecast gains (£m)
Science Research and Innovation	175	303	275	416	106	522
Further Education and Skills	377	117	491	560	340	900
Higher Education	143	52	246	490	180	670
Total	695	472	1,012	1,466²	626	2,092

Source: DIUS Departmental Report 2009, Annex 2.

NOTES

- This column shows 2008-09 gains that had been confirmed at the time of the 2009 Departmental Report. Full validated confirmation of gains was not available at this time due to the reporting cycles in further education and higher education.
- When added to this, £154 million over-delivery in SR04 gives total forecast gains of £1,620 million before taking account of the additional £400m savings required under the 2009 Budget.

⁷ National Audit Office: *Train to Gain: Developing the skills of the workforce*, HC 879, Session 2008-09, July 2009.

1.22 The 2004 Gershon Efficiency Review⁸ identified procurement as one of the main sources of efficiency savings. In SR04 the Department had a target of £75 million of savings to be achieved from improved procurement processes in further education colleges. The NAO's October 2006 report⁹ on procurement in the sector made a series of recommendations on improving colleges' procurement practices, which continue to be relevant as the Department works towards its CSR07 efficiency targets, under which it aims to achieve an additional £40 million in efficiency savings in this area.

1.23 The recommendations made by the NAO were reflected in the subsequent report by the Committee of Public Accounts (PAC)¹⁰, accepted by the Department in its Treasury Minute of November 2007. Key recommendations included:

- greater prioritisation of improvements in procurement by colleges;
- development of a professional approach to procurement – for example, the appointment of a procurement liaison officer by each college;
- review of data on procurement by colleges to collect useful management information to drive improvement;
- improved management of suppliers by colleges; and
- increased collaboration between colleges and promotion of good practice.

Administrative Burden Reduction targets

1.24 The Department has worked to reduce the administration costs which its regulations have imposed on businesses, in pursuit of the target established by the Government to reduce such costs by 25 per cent by May 2010 against a May 2005 baseline. The Department reports that by December 2008, savings of 24 per cent (£130.5 million) had been delivered against this target. Its Simplification Plan outlines the initiatives that have enabled achievement of this, and identifies those further measures that will enable the Department to achieve estimated savings of 31 per cent (£170 million) by May 2010.

1.25 Most of the savings reported to date are the result of the new Weights and Measures (Packaged Goods) Regulations 2006, which simplified the UK law on quantity indications by consolidating five Orders into one. The Department has allocated £129 million (99 per cent) of the administrative burdens reduction to date to this measure.

⁸ Sir Peter Gershon: *Releasing Resources to the Front Line: Independent Review of Public Sector Efficiency*, July 2004.

⁹ National Audit Office: *Improving procurement in further education colleges in England*, HC 1632, Session 2005-06, October 2006.

¹⁰ Committee of Public Accounts: *Improving procurement in further education colleges in England*, HC 477, October 2007.

Part Two

Delivery performance

2.1 This part examines the Department's performance against its Departmental Strategic Objectives (DSOs) and Public Service Agreements (PSAs). It draws on relevant NAO work, other internal and external reports and the Department's own assessment of progress made, as set out in the Departmental Report 2009.

Performance management

2.2 The 2007 Comprehensive Spending Review (CSR07) set the Government's performance framework for 2008-11 and reduced the total number of PSAs across Government from over 100 to 30. During 2008-09, the Department was responsible for leading delivery against two PSAs. The CSR07 framework required departments to develop a set of Departmental Strategic Objectives (DSOs) for the 2008-11 spending period. The Department set six DSOs, which directly support the wider government objectives set out in its two PSAs.

CSR07 Public Service Agreements

- **PSA 2** Improve the skills of the population, on the way to ensuring a world-class skills base by 2020.
- **PSA 4** Promote world-class science and innovation in the UK.

CSR07 Departmental Strategic Objectives

- **DSO 1** Accelerate the commercial exploitation of creativity and knowledge, through innovation and research, to create wealth, grow the economy, build successful businesses and improve quality of life.
- **DSO 2** Improve the skills of the population throughout their working lives to create a workforce capable of sustaining economic competitiveness, and enable individuals to thrive in the knowledge economy.
- **DSO 3** Build social and community cohesion through improved social justice, civic participation and economic opportunity by raising aspirations and broadening participation, progression and achievement in learning and skills.
- **DSO 4** Pursue global excellence in research and knowledge, promote the benefits of science in society, and deliver science, technology, engineering and mathematics skills in line with employer demand.

- **DSO 5** Strengthen the capacity, quality and reputation of the further and higher education systems and institutions to support national economic and social needs.
- **DSO 6** Encourage better use of science in Government, foster public service innovation, and support other government objectives which depend on DIUS expertise and remit.

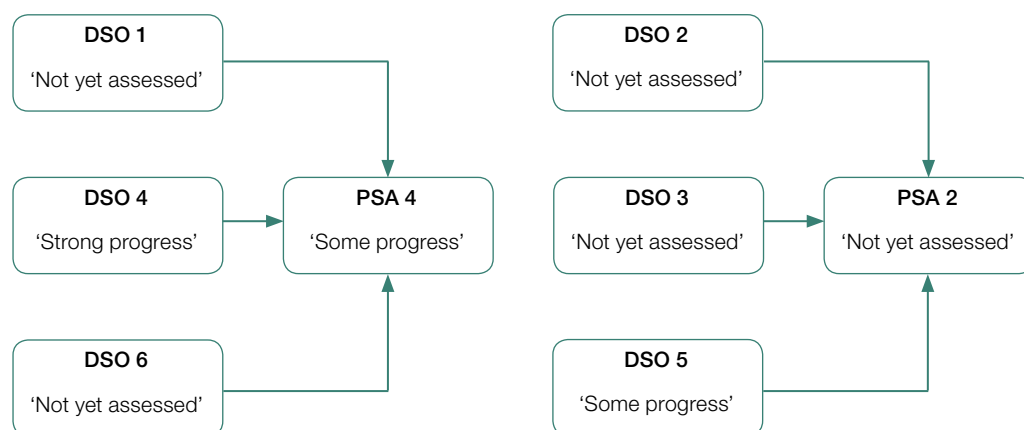
PSA 2 relates to the objectives for skills outlined in the Leitch Report,¹¹ and represents an interim target for making the UK a world leader in skills by 2020.

2.3 Chapters 2 and 3 of the Departmental Report outline the key initiatives taken to support delivery of objectives. Reporting of performance against the PSAs and DSOs began in 2008-09. There is some evidence of progress but in many areas the Department has not yet assessed progress (**Figure 4**). This briefing summarises the progress made against each indicator supporting the Department's overall assessment (Annex 2 for PSAs and Annex 3 for DSOs).

2.4 The Department was still responsible for reporting progress against its three PSAs from the previous spending review in 2004 (SR04), which covered the period to the end of 2007-08. These targets were inherited by the Department on its creation in 2007 from the former Department of Trade and Industry (DTI) and Department for Education and Skills (DfES). Delivery against the targets, as reported in the Departmental Report, is shown in Annex 4 of this briefing. Data lags mean that assessment of performance is often not based on recent data, as it is not yet available, and therefore a final assessment is not yet possible.

2.5 Overall, as in 2007-08, while challenges remain in achieving some elements of the SR04 PSAs, the Department considers that it is on course to meet each of its targets. The targets have been taken forward under the new PSAs outlined in the CSR07.

Figure 4
Reporting of performance against PSAs and DSOs



Source: DIUS Departmental Report 2009, Chapter 3.

¹¹ Lord Leitch: *Prosperity for all in the global economy – world class skills*, December 2006.

2.6 The remainder of this part of the briefing is structured around seven key themes, which together cover the Department's objectives:

- the state of the economy;
- machinery of Government changes;
- widening access to skills;
- moving towards a more demand-led skills system;
- performance of HEFCE and the LSC;
- infrastructure; and
- science and innovation.

The key activities of the Department are discussed, together with relevant coverage in recent NAO and other published reports.

State of the economy

2.7 The global economic downturn had substantial implications for the Department. Increasing public spending pressures make it more important than ever that departments achieve value for money, including by promoting innovation to increase efficiency and effectiveness. Specifically, the Department's role related to people affected by the recession and preparing for eventual economic recovery.

2.8 The measures detailed in the Departmental Report include further increased flexibility in the Train to Gain programme, promotion of apprenticeships via public sector procurement, and the advancement of £442 million of capital expenditure from 2010-11 into 2009-10 and 2008-09. The Department undertook initiatives with other bodies:

- In October 2008, the Department, together with the Department for Work and Pensions, announced funding of £100 million to help people made redundant by the recession to develop their skills to help them to move back into sustainable employment.
- In January 2009, HEFCE announced the Economic Challenges Investment Fund (ECIF), a matched-funding initiative between HEFCE and higher education institutions aimed at providing tailored training, development and professional support to individuals and businesses. Support for 77 bids was agreed, with investment totalling £59 million (HEFCE provided £27 million and a variety of other institutions working in partnership with universities provided the balance). Overall the fund is intended to benefit over 11,000 businesses and 50,000 individuals between April 2009 and September 2010.

2.9 The Department responded quickly with these measures, though with the associated risk that the time available to design and implement them was short. It is too early to assess their impact in helping to tackle the effects of the recession.

Impact of the recession

2.10 Two of the risks to delivery identified by the Department's Board relate to the impact of the recession on the delivery of programmes and development of new initiatives, and the effect of the recession on employer and learner demand. The Department's delivery partners, including those in the private and third sectors, are also affected by the recession.

2.11 PSAs affected by the economic climate also include cross-governmental PSAs to which the Department's programmes contribute; for example, PSA 8, led by the Department for Work and Pensions, to maximise employment opportunity for all.

2.12 The Department decided in October 2008 to fund an additional 10,000 full time equivalent students in higher education in the 2009-10 academic year. It had previously planned for 15,000 additional students, but funding and student numbers were reduced due to the Department's earlier underestimate of the cost of student support.¹² At the same time institutions' funding would be reduced if they over-recruited.

2.13 Partly as a result of some young people deferring their entry into the workforce in the current economic climate, applications for higher education places increased by 10.1 per cent in 2009.¹³ In July 2009, the Government announced that it would also allow 10,000 extra places in maths, science and technology, for which it would provide student support. However, there would be no additional funding to institutions for the teaching of these students, although institutions would still receive the students' tuition fees.

2.14 Partly as a consequence of the Department's widening participation initiatives, there has been an increase in take-up of student loans and awards for student support. The Department identified a potential shortfall in funding for the 2009-10 academic year, which has increased Parliamentary and public interest.

2.15 The Department's PSA on promoting innovation is dependent upon research and development expenditure by other organisations, including private sector companies, some of which may decide to cut their research activity. In the past, where shortfalls in research funding have been identified in areas of research opportunity, the Department has reallocated Research Council funding between the Councils to meet requirements.

Machinery of Government changes

2.16 The creation of the Department in June 2007, brought together science and innovation (from the former DTI) and further and higher education and skills (from the DfES).

¹² As announced in the HEFCE grant letter of 22 January 2009, paragraph 20.

¹³ UCAS media release of 25 August 2009 on applicant statistics.

2.17 The most recent Machinery of Government changes in June 2009 merged the Department with the Department for Business, Enterprise and Regulatory Reform to form the Department for Business, Innovation and Skills (BIS). BIS' mission is to build a dynamic and competitive UK economy by:

- creating the conditions for business success;
- promoting innovation, enterprise and science; and
- giving everyone the skills and opportunities to succeed.

Reaction of stakeholders to the creation of BIS

2.18 Universities UK, a major representative body in higher education, responded positively to the decision to create BIS, suggesting that it showed that the Government had acknowledged the important role of higher education to the economy and society. The university think-tank, Million+, commented that the change might result in real benefits if universities were at the heart of the Government's agenda for innovation and this was linked with a commitment by the new Department to promote social mobility and employability.

2.19 Other organisations had a more mixed response. For example, the Chartered Institute for Personnel and Development, recognised the benefits in more closely aligning skills and business, but considered that the merger was poorly timed, being initiated during a period of recession when stability is required. Concerns have also been expressed more generally in the business community that there could be a loss of focus on skills because of the breadth of the Department's responsibilities that include business and enterprise.

Further considerations

2.20 The new Department faces the usual challenges from the merger, including the need to re-organise and integrate key systems and processes without disrupting services, and to retain and motivate skilled staff during a period of further substantial change. The costs relating to the merger need to be monitored to ensure that they are reasonable and can be scrutinised in future.

2.21 The Department has been managing continuing changes within itself, its bodies, and the sectors in which it operates. The Machinery of Government change that created BIS came just two years after the DIUS was itself created. Indeed, at the time of the decision, DIUS was in the last phase of a change programme designed to build a department that could succeed in meeting the objectives it had been set. Benefits from this programme were envisaged by 2009 and later. Since BIS has taken on all the former responsibilities of DIUS, it is important that the benefits of the change programme continue to be realised where this is appropriate and feasible.

2.22 The Machinery of Government changes also have implications for the Department's oversight of its NDPBs. The 2009 Foster Review of the FE Capital Programme highlighted concerns about oversight and the management of risk (paragraph 2.58).¹⁴ The lessons of this review are relevant to the creation of the Skills Funding Agency (SFA) from April 2010 and the development of the relationships between the new Department with the Agency and its NDPBs. As an executive agency, the SFA will legally act on behalf of the Secretary of State. It will be organisationally independent from the Department, and the chief executive will perform the role of accounting officer, which means he/she will be responsible for the money spent by the SFA.

Widening access to skills

2.23 The Leitch Review of Skills recommended that the UK commit to being a world leader in skills by 2020¹⁵. Interim targets to enable achievement of this aim have been taken forward in the CSR07 PSAs. Strategies are outlined in *The Learning Revolution* White Paper, and the updated Skills for Life strategy, both published in March 2009.¹⁶ The Department expected to meet its target of supporting an additional 5,000 students in 2008-09 through employer co-funded higher education places. The number of successful applicants to higher education from lower-income backgrounds increased by 7.4 per cent between 2007-08 and 2008-09.

2.24 2008-09 saw increased expenditure and activity on Train to Gain (paragraphs 2.28 to 2.32) and the full establishment of a further two National Skills Academies since May 2008. The Department reported that over 17,000 employers had made the Skills Pledge to support their employees to gain skills and qualifications. The Apprenticeships Programme was extended, and Apprenticeship starts in the first half of the year were around one fifth higher than the same period in 2007-08.

2.25 Skills Accounts are personalised accounts for individuals, containing an individual learning record, details of eligibility for government funding for courses, and bringing together advice and information on courses available. The piloting of Skills Accounts began in September 2008, with ten prototypes for the adult advancement and careers service, to be launched in 2010, which combined advice on skills and training with guidance on overcoming barriers to learning.

¹⁴ Sir Andrew Foster: *A Review of the Capital Programme in Further Education*, March 2009.

¹⁵ Lord Leitch: *Prosperity for all in the global economy – world class skills*, December 2006. This included the following objectives:

- ninety five per cent of adults to achieve the basic skills of functional literacy and numeracy, an increase from levels of 85 per cent literacy and 79 per cent numeracy in 2005;
- exceeding 90 per cent of adults qualified to at least Level 2, an increase from 69 per cent in 2005, with a commitment to go further and achieve 95 per cent as soon as possible;
- shifting the balance of intermediate skills from Level 2 to Level 3. This means 1.9 million additional Level 3 attainments over the period and boosting the number of Apprentices to 500,000 a year;
- exceeding 40 per cent of adults qualified to Level 4 and above, up from 29 per cent in 2005, with a commitment to continue progression.

¹⁶ Department for Innovation, Universities and Skills: *Skills for Life: Changing Lives*, March 2009 and Department for Innovation, Universities and Skills: *The Learning Revolution*, March 2009.

2.26 The Individual Learner Accounts programme, which had similar aims, was closed in December 2001 after fifteen months, due to concerns over abuse of the system by training providers. It is important that lessons are learned from the programme. Skills Accounts plan to use only providers who have been quality assured by the LSC. Payments will be made as part of routine funding, whereas for Individual Learning Accounts, payments were made on a separate system run by a contractor. In response to a recommendation of the PAC, the Department stated that the trials of the accounts include risk-testing against malpractice. Internal auditors in the Department and LSC will be reviewing the Skills Account trials.

2.27 The findings and recommendations of the following five NAO reports are relevant to continuing efforts to improve the skills of the population and widen access to learning.

Train to Gain

2.28 Train to Gain was launched in April 2006, and had cost £1.47 billion by March 2009, with a budget of £925 million in 2009-10. The NAO report on this initiative, published in July 2009¹⁷, examined the design and implementation of the programme, and progress made in its first three years of operation.

2.29 The NAO found that employers and learners have reported benefits from training, and some improvements in business performance. However, half of employers who had arranged training via Train to Gain would have arranged similar training without public subsidy. Although the overall success rate was 71 per cent in 2006-07, there was wide variation in success rates between the largest 100 providers of between eight and 99 per cent.

2.30 The NAO highlighted the risk that a lack of management information within LSC could lead to overspending on the Train to Gain programme. Delays in completing IT development work had meant that the LSC only became aware of the full extent of an increase in learner numbers, partly resulting from increased flexibilities brought in during 2008, at the end of 2008. In April 2009, the LSC formally instructed training providers to contain activity within maximum contract values. Expenditure on the programme exceeded the 2008-09 budget by £50 million (six per cent).

2.31 The report concluded that over its full lifetime, the programme had not provided good value for money. The Department and the LSC did not agree, pointing to the satisfaction levels among businesses and learners, improvements in the flexibility and management of the programme, and they considered that a reasonable level of 'additionality' had been achieved.

2.32 The following NAO recommendations¹⁸ are relevant to the Department and LSC in working towards the skills targets, and will need to be considered by the new SFA as it takes over responsibility for Train to Gain in 2010.

¹⁷ National Audit Office: *Train to Gain: Developing the skills of the workforce*, HC 879, Session 2008-09, July 2009.

¹⁸ National Audit Office: *Train to Gain: Developing the skills of the workforce*, HC 879, Session 2008-09, July 2009.

- The now strong demand for training needs to be better managed, to make the programme sustainable while avoiding overspending in 2009-10. To mitigate the over-commitment that has severely affected the Further Education Capital Programme (paragraphs 2.54 – 2.60), the Department and the LSC ‘should develop their capacity to manage demand-led programmes by balancing stimulation of demand with effective control and forecasting of expenditure. The Department should develop a clearer view of the financial position by conducting robust assessments of the financial implications of skills policy changes, before they are implemented’. It will be important for the new Department to apply these lessons to other programmes, notably the Skills Accounts for individual learners starting in 2010-11.
- The NAO found that inconsistencies in LSC’s management of the programme between regions led to confusion among training providers and brokers. The LSC needs to build confidence in its providers by improving contract management procedures and communication, with the improvements continuing after March 2010 by the SFA.
- The Department should focus Train to Gain funds on the areas of greatest need and on training with the highest-quality providers. Ways to increase the amount of genuinely additional training should be investigated.

Widening participation in higher education

2.33 The NAO’s report in June 2008¹⁹ examined the progress made by the Department in increasing the participation of under-represented groups in higher education. The recommendations made link directly to PSA 2, which includes a commitment to increase participation towards 50 per cent of those aged between 18 and 30, with growth of at least one percentage point every two years to 2010-11.

2.34 The NAO found that actions taken by the Department, HEFCE and the Office of Fair Access cannot alone increase participation, as many additional factors affect participation rates. In order to improve the value for money of the Department’s activities, the Department should improve the data collected on student characteristics to accurately assess the participation of under-represented groups; carry out more rigorous evaluation of individual activities; increase knowledge of how each institution is working to widen participation; assess demand for more diverse higher education delivery; and make all potential students aware of the types of financial support available.

¹⁹ National Audit Office: *Widening participation in higher education*, HC 725, Session 2007-08, June 2008.

2.35 The Department accepted the findings of the subsequent Committee of Public Accounts report.²⁰ It was introducing Widening Participation Strategic Assessments, which required institutions to report on their widening participation activities from June 2009, and in February 2009 it launched Student Finance England, which provides a 'one-stop shop' for all matters relating to student finance in England.²¹

Retention of students in higher education

2.36 The NAO's report, published in July 2007²², found that compared internationally, higher education institutions in England achieve relatively high levels of student retention. However, the wide variation in retention rates between institutions indicated considerable scope for improvement.

2.37 Recommendations made by the NAO, and by the PAC in the Committee's subsequent report²³ included greater sharing of good practice among institutions; the collection of data on the reasons for withdrawal from courses by students; more detailed reviews of trends in retention rates by institutions; and greater understanding by institutions of the changing needs of their student populations.

2.38 These recommendations continue to be relevant to the Department as it works towards its PSA 2 commitment to increase the proportion of adults qualified to at least level 4, and increase the higher education participation rate. Actions taken by the Department in response include a programme to help universities share and disseminate good practice, support for the development of more flexible higher education provision to better meet the needs of individuals and employers, and the agreement of improvement plans for poorly performing institutions.

The Offenders' Learning and Skills Service

2.39 The Offenders' Learning and Skills Service (OLASS) was launched in 2006 to improve the basic literacy and numeracy skills of offenders, increasing employability and thereby reducing re-offending. The Department held the budget, and through the LSC, had responsibility for planning and funding this service.

2.40 In its March 2008 report, the NAO concluded that the value for money achieved by the service was below the level of which the service was capable in time.²⁴ The NAO report and subsequent PAC report recommended that the OLASS delivery partners, which included the Department:

- address the tensions surrounding the different objectives for learning and skills provision in the prison system;

20 Committee of Public Accounts: *Widening participation in higher education*, Fourth Report of Session 2008-09, February 2009.

21 Treasury Minute on the Fourth Report from the Committee of Public Accounts 2008-09, *Widening participation in higher education*, May 2009.

22 National Audit Office: *Staying the course: The retention of students in higher education*, HC 616, Session 2006-07, July 2007.

23 Committee of Public Accounts: *Staying the course: The retention of students in higher education*, Tenth Report of Session 2007-08, February 2008.

24 National Audit Office: *Meeting needs: the Offenders' Learning and Skills Service*, HC 310, Session 2007-08, March 2008.

- continue their work to facilitate access to information on offenders' learning needs, progress and achievements by providers and offender managers to ensure that information is not lost if offenders are moved;
- improve screening of prisoners' learning and skills needs and establish a core curriculum to be in place in each prison establishment;
- hold providers to account over the quality of learning and skills provision, and take forward the planned activity to set target participation rates and achievement levels for each provider; and
- implement a performance monitoring system for all OLASS delivery partners.

2.41 The Department accepted all these recommendations, which are relevant to the PSA to increase the percentage of qualified working level adults.

Skills for Life

2.42 The NAO's 2008 report on the Skills for Life strategy²⁵ examined the progress made by the Department in improving adult literacy, numeracy and English language skills since the previous NAO and PAC reports²⁶ on the strategy. It included an assessment of progress against the commitment made in PSA 13 under SR04 to tackle the adult skills gap.

2.43 The NAO concluded that performance against the PSA was strong (data subsequent to publication of the report showed that the target to improve the basic skills of 2.25 million adults between 2001 and 2010 had been achieved early). However, more progress had been made in strengthening literacy skills than numeracy, and there was still a need for more engagement with hard-to-reach learners.

2.44 In order to achieve better value for money, and to support achievement of the target in the CSR07, the NAO recommended that the Department carry out a follow-up to the 2003 Skills for Life survey to assess the impact of the Skills for Life programme; monitor regional participation rates and tackle the variations in achievement; work more closely with other government departments and voluntary services (e.g. housing services, Jobcentre Plus and prison services) to encourage take up of courses, and action to increase the supply of skilled numeracy teachers.

2.45 The Department's response to the subsequent PAC report²⁷ included the publication of a new Skills for Life strategy in March 2009, with activities to address the numeracy challenge, and improved links between employment and skills services through the introduction of the adult advancement and careers service.²⁸ The Department also planned to carry out a Skills for Life survey in 2010 to assess current literacy and numeracy skills in England.

²⁵ National Audit Office: *Skills for Life: Progress in improving adult literacy and numeracy*, HC 482, Session 2007-08, June 2008.

²⁶ National Audit Office: *Skills for Life; improving adult literacy and numeracy*, HC 20, Session 2004-05, December 2004, and Committee of Public Accounts, *Skills for Life: improving adult literacy and numeracy*, HC 792, Session 2004-05, December 2005.

²⁷ Committee of Public Accounts: *Skills for Life: Progress in improving adult literacy and numeracy*, HC 154, Third Report of Session 2008-09, January 2009.

²⁸ Treasury Minute on the Third Report from the Committee of Public Accounts 2008-09, *Skills for Life: progress in improving adult literacy and numeracy*, March 2009.

A demand-led skills system

2.46 Train to Gain and the development of Skills Accounts are important elements of the policy to move towards a more demand-led skills system. Skills Accounts are intended to encourage participation, giving learners access to the information and support to help them choose the best training for them. Train to Gain, and specifically the skills brokering service, similarly seeks to help employers select the training most relevant to the needs of their business.

2.47 In March 2008, the Department announced further proposals for the post-19 skills system intended to make it more flexible and responsive to local needs, which included the creation of the Skills Funding Agency (SFA).²⁹ These changes were set out in the Apprenticeships, Skills, Children and Learning Bill, expected to receive royal assent in autumn 2009. A Joint Programme Board with DCSF is in place to manage the dissolution of the LSC in April 2010 and transfer of responsibilities to the SFA and the Young People's Learning Agency (YPLA).

2.48 These changes, which are being undertaken in parallel with the recent Machinery of Government changes discussed in paragraph 2.16, have resulted in further uncertainty, in particular for the learning and skills sector. The changes require focused attention, particularly from top management, but equally it is vital that efforts to maintain services and forward planning, such as for the next CSR, are not deflected. The Department has designated a member of its board as Director, LSC Transition to SFA. While the broad roles of the bodies taking on LSC responsibilities are known, the precise activities that will fall to the SFA, YPLA, local authorities, and Government Offices are still being worked through. As the change process proceeds, a key risk for the Department will be delivery by the LSC of its continuing core business.

2.49 The UK Commission for Employment and Skills (UKCES) was launched on 1 April 2008 to advise the Department on its employment and skills strategy. Its reports on skills needs draw on the knowledge of the Sector Skills Councils and employers in general. In response to a request from the Secretary of State for the Department to 'advise the Government on simplification of post-19 training and skills in England', the Commission published recommendations in October 2008.³⁰ Its report concluded that excessive complexity, bureaucracy, constant changes to programmes and initiatives, and difficulties in accessing the system meant that employers were frustrated. Its recommendations were accepted by the Department, and included:

- implementation of a Talent Map, to enable employers to easily access publicly-funded skills and employment services;
- creation of a single, integrated brokerage service for skills and business support;
- brigading all government skills programmes and initiatives under a single brand (Train to Gain); and
- reduction in bureaucracy.

²⁹ Department for Innovation, Universities and Skills and Department for Children, Schools and Families: *Raising Expectations: enabling the system to deliver*, March 2008.

³⁰ UK Commission for Employment and Skills: *Simplification of Skills in England: expert advice to government on simplification of the English post-compulsory skills system for employers*, October 2008.

2.50 A report published by UKCES in July 2009³¹ concluded that good progress had been made in implementing these recommendations; however, there is still more work to be done, particularly to reduce bureaucracy. The Commission has undertaken a consultation exercise with employers and stakeholders to inform further work in this area. In all its reports about the delivery of skills, the NAO seeks to understand and communicate as simply as possible how the system is structured and operated at a particular point in time. The Innovation, Universities, Science and Skills (IUSS) Committee's report *Re-skilling for recovery: After Leitch, implementing skills and training policies*³² included skills maps provided by the NAO that illustrated the complexity of the system.

2.51 The UKCES asked the NAO to conduct independent performance assessments of each of the 25 Sector Skills Councils in the UK. The independent assessments are informing recommendations to Ministers on whether the SSCs should be relicensed. The assessments have been carried out in five tranches, each comprising five SSCs. The first two tranches have been published, and of the ten SSCs reviewed, eight have been relicensed. The role and strategy of the Financial Services Skills Council is to be reviewed, and a decision on its relicensing made in autumn 2009. Skillfast UK, covering the fashion and textiles sector, will be subject to a separate consultation by Ministers, and the results announced at a later date. The results of the remaining three tranches are due to be published later this year.

Infrastructure

2.52 In 2005, the Report of the Foster Review of Further Education³³ highlighted common problems in the physical infrastructure of further education colleges that had an impact on participation in learning:

- unattractive physical appearance, which had a direct bearing on the reputation of the sector, creating poor perceptions among learners, employers and the community;
- too much space in too many buildings, often expensive to run and with poor energy efficiency;
- poorly configured buildings, with equipment not suitable for modern learning; and
- poor access for people with disabilities.

2.53 In 2008-09, the Department continued to make considerable investment in renewing the further education estate. Though the policy has been commended³⁴, there have been serious problems with implementation.

³¹ UK Commission for Employment and Skills: *Simplification of Skills in England: an interim assessment of progress on implementing the recommendations in Simplification of Skills in England*, July 2009.

³² Innovation, Universities, Science and Skills Committee: *Re-skilling for recovery: After Leitch, implementing skills and training policies*, Session 2008-09, HC 48-1, January 2009, Appendix.

³³ Sir Andrew Foster: *Realising the Potential: a review of the future role of further education colleges*, November 2005.

³⁴ For example: Sir Andrew Foster: *A Review of the Capital Programme in Further Education*, March 2009.

Further Education Capital Programme

2.54 Between April 2001 and March 2008, the LSC approved colleges' projects at the final detailed application stage with a total cost of £4.2 billion and grant support totalling £1.7 billion. The NAO reported in July 2008, examining the LSC's coordination of the programme, and the impact of the programme on the sector.³⁵

2.55 The NAO concluded that the capital programme was enabling colleges in England to make good progress in renewing and rationalising their estate, replacing poor quality buildings with high quality, more suitable facilities. By 2008, around half of the estate had been renewed and the LSC planned that the rest of the work would be completed within about eight years. Ninety seven per cent of colleges surveyed by the NAO considered that their renewed building was excellent or good.

2.56 The NAO report highlighted however, that completion of the programme by 2016 required careful risk management and prioritisation of funds by the LSC, as increasing project costs were putting the affordability of the programme at risk within the LSC's existing budgets. The NAO also concluded that the Department needed better visibility of the programme, in order to ensure a smooth transition of responsibilities when the LSC is dissolved in 2010.

2.57 The NAO report was based on project information to March 2008. Between April and December 2008, the LSC approved further projects that anticipated Council funding totalling £2.4 billion, and by March 2009, had also approved 'in principle' projects that, if approved 'in detail', would entail £2.7 billion of Council funding that it could not afford. In December 2008, the Department and LSC became aware of a large gap between the cost of projects approved in principle by the LSC and the level of funding available, and declared a three month moratorium on further projects.

2.58 In a review of the programme commissioned by the Department and the LSC, Sir Andrew Foster found that warnings of budgetary overspend as early as February 2008 had not been heeded, and the scrutiny of the LSC by the Department was 'insufficiently incisive to uncover ongoing flaws in implementation'.³⁶ He concluded that the most significant responsibility for the problems rested with 'failures in the general management and financial management of the LSC and the fact that its corporate governance systems (and specifically its Audit Committee's risk register management) did not focus on financial prediction and control more effectively'.³⁷ The PAC report in July 2009 also concluded that 'there has been a very serious failure in the management of the programme, with the LSC over-stimulating the demand for funding and mismanaging the approval process'.³⁸ The Committee urged the Department to develop greater oversight of the financial performance of key programmes.

³⁵ National Audit Office: *Renewing the physical infrastructure of English further education colleges*, HC 924, Session 2007-08, July 2008.

³⁶ Sir Andrew Foster: *A Review of the Capital Programme in Further Education*, March 2009.

³⁷ Sir Andrew Foster: *A Review of the Capital Programme in Further Education*, March 2009.

³⁸ Committee of Public Accounts: *Renewing the physical infrastructure of English further education colleges*, Forty-Eighth report of Session 2008-09, July 2009.

2.59 The Department's response to the Committee's report is expected in the autumn. Regarding the earlier Foster Report³⁹, actions taken in 2008-09 included appointing an external team to review the financial data on capital projects to ensure the data was accurate and up-to-date, and consultation with the sector to establish priorities for which schemes should receive the limited funding available.

2.60 Following the LSC's moratorium on project approvals, in March 2009 the LSC approved in detail eight projects, and it approved a further 12 in August 2009 following cost reductions to their initial project plans. The LSC announced that the remaining projects submitted to the LSC (over 180, including many that had received Approval in Principle) had 'no prospect of having their projects funding in this CSR'.⁴⁰ In July 2009, the IUSS Committee published its report on the Capital Programme, drawing on the testimonies of witnesses and other sources such as the Foster Report.⁴¹ The Committee strongly criticised the LSC. It also found that in approving subsequent projects, the LSC had worked hard to address previous shortcomings in prioritisation, and made recommendations to inform the way that future funding was committed. The Committee also commented that lessons from the management of this capital programme are relevant for the management of other LSC programmes, including Train to Gain.

Performance of HEFCE and LSC

2.61 HEFCE and LSC comprised 65 per cent of the Department's total net operating expenditure in 2008-09. Both play essential roles in the Department's delivery of skills objectives.

HEFCE

2.62 HEFCE has six strategic aims, progress against which is monitored by 22 targets. Against these targets, HEFCE reported that during 2008-09 three were achieved, 16 were on target to be achieved, two were partially on target and one was below target.⁴² The latter related to the aim that 95 per cent of higher education institutions should receive judgements of confidence in institutional quality audits by the Quality Assurance Agency completed by 2008-09; 93.8 per cent was achieved.

2.63 Most of the £7.5 billion received by the Council in 2008-09 (89 per cent) was allocated to institutions as recurrent funding for teaching and research (strategic aims 1 and 3). Six per cent was spent on widening participation.

³⁹ Sir Andrew Foster: *A Review of the Capital Programme in Further Education*, March 2009.

⁴⁰ Letter from Chris Banks, Chairman of the LSC, 26 June 2009.

⁴¹ Innovation, Universities, Science and Skills Committee: *Spend, spend, spend? – The mismanagement of the Learning and Skills Council's capital programme in further education colleges*, Session 2008-09, HC 530, 6 July 2009.

⁴² Higher Education Funding Council for England: *Annual Report and Accounts, 2008-09*, May 2009.

LSC

2.64 The LSC is funded by both the Department and DCSF. Of the total £11.9 billion in Grant-in-Aid the LSC received from the Department, £7.4 billion was received as income by the Department from DCSF as it related to funding for DCSF initiatives.

2.65 Of the programme costs that relate to the Department, the Council's three largest areas of expenditure in 2008-09 were on Further Education 19+ participation funding (£1,469 million), Train to Gain (£876 million) and Further Education capital programmes (£607 million). FE 19+ participation funding fell by 22 per cent compared to 2007-08. Train to Gain expenditure increased by 146 per cent compared with 2007-08, linked to increased activity. There was also a large increase in demand for Apprenticeships, as expenditure grew by 52 per cent to £118 million in 2008-09.

2.66 Continued concerns about the governance of the LSC in 2008-09 are discussed in paragraph 1.14. Against these challenges, the LSC highlights a number of key achievements, including an increase in learner volumes in Train to Gain as a result of increased flexibility in funding announced during the year, and greater integration of employment and skills through collaboration with Jobcentre Plus, to develop Local Employment Partnerships and expand the Employability Skills Programme.

Science and innovation

2.67 The Department sought to encourage innovation across all sectors, and published its strategy for achieving its innovation ambitions in the *Innovation Nation White Paper* (March 2008). Progress in 2008-09 included the publication of the first Annual Innovation Report, which will be used to support benchmarking of innovation performance over time, and to guide innovation policy. The Technology Strategy Board continued to encourage innovation in businesses, and is investing over £1 billion in support between 2008 and 2011. Commercialisation of research by higher education institutions also continued; an independent evaluation of the Higher Education Innovation Fund (HEIF) indicated that £600 million of HEIF funding has generated between £2.9 billion and £4.2 billion of income for universities.⁴³

2.68 Initiatives to encourage innovation in the public sector during 2008-09 include the Whitehall Hub for Innovation, and the Small Business Research Initiative, which gives innovative companies the opportunity to develop technology to meet the needs of government departments. The Department also sponsored the launch of programmes to encourage innovation by the Design Council and the National Endowment for Science, Technology and the Arts (NESTA).

⁴³ Report to the Higher Education Funding Council for England by Public and Corporate Economic Consultants and the Centre for Business Research, University of Cambridge: *Evaluation of the effectiveness and role of HEFCE/OSI third stream funding*, April 2009.

2.69 The Department also reported delivering significant progress in the promotion of science and research in 2008-09. It committed to supporting a number of research programmes during the year, including funding of the European Space Agency programme to develop satellite systems for climate and environmental monitoring. The UK Science and Society strategy was published in May 2009, and the Department led the ‘Science: So what? So everything’ campaign to highlight the importance of science in our lives. Funding to provide world-class research facilities to scientists continued, and £225 million was invested to help universities maintain their research infrastructure.

2.70 The Department continues a joint STEM programme with DCSF to examine whether there are sufficient science, technology, engineering and maths students at school and university, and to develop and implement initiatives to address any shortfall.

2.71 The finding and recommendations of the NAO report on innovation across central government⁴⁴ (March 2009) are relevant to these areas of the former Department’s responsibilities.

- Progress has been made since the NAO last reported on the topic in 2006.⁴⁵ The need for innovation has been emphasised more strongly by the centre of government, and central government organisations recognise the need for innovation and its increasing importance.
- The Department is responsible for policy on public sector innovation. However, it currently has no means to measure the impact of its innovation policies, or of other central government initiatives on innovation.
- Confusion about the purpose of innovation prevents government organisations taking opportunities to innovate, and few central government organisations have considered how they should encourage and support innovation. The Department should assist departments in developing these strategies and should highlight and spread good practice.

⁴⁴ National Audit Office: *Innovation across central government*, HC 12, Session 2008-09, March 2009.

⁴⁵ National Audit Office: *Achieving innovation in central government organisations*, HC 1447, Session 2006-07, July 2006.

Part Three

Department Capability

3.1 This part examines the capability of the Department to deliver against its objectives, based on the results of:

- the Cabinet Office's Capability Review; and
- the Department's staff survey.

Capability Review

3.2 Since 2005, the Cabinet Office has carried out capability reviews to identify steps that departments need to take to match their capability to future challenges. In December 2008, the Cabinet Office published its baseline Capability Review of the Department.⁴⁶ The review team assessed the performance of the Department in the three areas of the model of capability: leadership, strategy and delivery.

3.3 The review team assessed the Department's capability for future delivery as 'well placed' in three of the 10 elements in the model of capability; five elements were assessed as 'development area', and two as 'urgent development area' (see **Figure 5**). No areas were assessed as 'strong' or as having 'serious concerns'.

3.4 The reviewers found that the Permanent Secretary, who later departed in May 2009, and the leadership team had successfully set up the Department, developing good working relationships with stakeholders and continuing to deliver its agenda. They reported that some aspects were under-developed, including the Department's strategy and performance management systems.

3.5 The review identified four key areas for development:

- to strengthen the leadership to deliver the benefits of a new department, starting with the Board;
- to use the vision to develop an evidence-based strategy that informs staff and stakeholders and enables prioritisation;
- to strengthen relationships with delivery partners in order to better manage performance and risk in the Department's delivery chains; and

⁴⁶ Cabinet Office, *Civil Service Capability Reviews: Department for Innovation, Universities and Skills – Baseline Assessment*, December 2008.

- to resolve outstanding systems and process issues to ensure that staff motivation and confidence do not disappear.

3.6 In response to the findings of the review, the Department stated that during 2009 it would:

- connect its high-level vision to its day-to-day work – and use this to prioritise and integrate work across its policy areas;
- build its relationships with the DIUS family so that it and its partners can deliver, and be seen to have delivered, sustainable outcomes;
- continue to fix and improve the basic systems and processes that can otherwise get in the way of staff doing their jobs; and
- strengthen cross-department leadership and shared ownership of organisational change so that it can become more than the sum of its parts.

Figure 5

Assessment of the Department's capability for future delivery

Leadership

Set direction	Well placed
Ignite passion, pace and drive	Well placed
Take responsibility for leading delivery and change	Urgent development area
Build capacity	Development area

Strategy

Focus on outcomes	Urgent development area
Base choices on evidence	Development area
Build common purpose	Well placed

Delivery

Plan, resource and prioritise	Development area
Develop clear roles, responsibilities and delivery models	Development area
Manage performance	Development area

Source: Cabinet Office, Civil Service Capability Reviews: Department for Innovation, Universities and Skills – Baseline Assessment, December 2008

Staff survey

3.7 The Department employed 889 staff as at 31 March 2009. In October 2008, it undertook its first annual all staff survey, comparing the results with a Civil Service benchmark where this existed. Overall, of the 30 benchmarked indicators, the Department exceeded the benchmark in 14 cases and fell short in 16. Key results included:

- Seventy-six per cent of staff understood how their work contributed to the objectives of the Department (compared to the benchmark of 83 per cent);

- Sixty-eight per cent were motivated to do the best they could in their job;
- Thirty-three per cent believed that the Department as a whole was well managed and 28 per cent felt that change was managed well (scores one per cent and two per cent higher than benchmarks respectively); and
- Forty-seven per cent felt that the Board had a clear vision for the Department, and 39 per cent had confidence in its Senior Civil Servants (the latter indicator was five per cent higher than the benchmark).

Departmental Report 2008

3.8 In its review of the Department's 2008 Departmental Report⁴⁷, the IUSC Committee found the Report to be inaccessible, containing unsupported assumptions, and failing to present a clear picture of the Department. The Committee was unable to scrutinise performance against efficiency targets from the information presented in the report, and questioned inconsistencies between the risks reported in the Departmental Report, and those in the 2007-08 Resource Accounts. It also commented that the Department's own assessment of performance was much more positive than the external Capability Review in December 2008.

3.9 In response to these findings⁴⁸, the Department stated that it would make the 2009 Departmental Report more concise and accessible, and had put in place measures to ensure greater accuracy of published data. The Department explained that the variation between the risks presented in the Departmental Report and the Resource Accounts arose because the former covers business risks affecting policy outcomes, while the latter covers control issues. The Department also pointed to positive comments made in the Capability Review, and highlighted its action plan to respond to the recommendations. It provided further detail to the Select Committee on forecast efficiency gains over the CSR07 period.

⁴⁷ Innovation, Universities, Science and Skills Committee: *DIUS' Departmental Report 2008*, Session 2008-09, HC 51-I, January 2009.

⁴⁸ Innovation, Universities, Science and Skills Committee: *DIUS' Departmental Report 2008: Government Response to the Third Report from the Committee*, Session 2008-09, HC 383, March 2009.

Annex One

The Department's delivery partners

1 During 2008-09, the Department had lead responsibility for the public sector bodies listed in this annex. With the exception of the National Weights and Measures Laboratory, these bodies are all outside of the Departmental boundary for Resource Accounts.

2 The executive Non-Departmental Public Bodies (NDPBs) have their own Accounting Officers who are responsible to Parliament for the funds received and publish their own accounts separately. All of the NDPBs are financed primarily or wholly through Grant-in-Aid, except four (National Endowment for Science, Technology and the Arts; Construction Skills; Engineering Construction Industry Training Board; and Film Industry Training Board).

Executive Agencies

- National Weights and Measures Laboratory (became the National Measurement Office from 1 April 2009)
- UK Intellectual Property Office (also a Trading Fund)

Executive Non-Departmental Public Bodies (NDPBs)

- Design Council
- Higher Education Funding Council for England (HEFCE)
- Learning and Skills Council (LSC)
- Office for Fair Access
- Student Loans Company Ltd
- UK Commission for Employment and Skills (replaced the Sector Skills Development Agency from 1 April 2008)
- Technology Strategy Board
- National Endowment for Science, Technology and the Arts
- Quality Improvement Agency (ceased operating from 30 September 2008)
- British Hallmarking Council
- Arts and Humanities Research Council
- Biotechnology and Biological Sciences Research Council

- Economic and Social Research Council
- Engineering and Physical Sciences Research Council
- Medical Research Council
- Natural Environment Research Council
- Science and Technology Facilities Council
- Investors in People UK Ltd (expected to be wound up as an NDPB at the end of 2009-10)

Executive NDPBs funded by levy

- CITB: ConstructionSkills
- Engineering Construction Industry Training Board
- Film Industry Training Board

Sector-owned public sector body

- Learning and Skills Improvement Service (from 1 October 2008)

Tribunal NDPB

- Copyright Tribunal

Advisory NDPBs

- Council for Science and Technology
- Strategic Advisory Board for Intellectual Property Policy (established 2 June 2008)

Government Owned Contractor Operated Laboratory

- National Physical Laboratory

'Near to Government' bodies

- Ufi
- British Standards Institution
- Information Authority
- UK Accreditation Service
- UK Skills

Annex Two

Departmental performance against Comprehensive Spending Review 2007 Public Service Agreements

PSA Target	Performance in 2008-09
PSA 2 - Improve the skills of the population on the way to ensuring a world-class skills base by 2020	Not yet assessed
1a 597,000 people of working age to achieve a first level 1 or above literacy qualification between 2008 and 2011; and	Not yet assessed ⁴⁹
1b 390,000 people of working age to achieve a first entry-level 3 or above numeracy qualification between 2008 and 2011	
2 Adult level 2: to increase to 79 per cent the proportion of working age adults qualified to at least level 2 by 2011	Improvement shown ⁵⁰
3 Adult level 3: to increase to 56 per cent the proportion of working age adults qualified to at least level 3 by 2011	Improvement shown ⁵⁰
4 Apprenticeships: 130,000 to complete the full Apprenticeship framework in 2010-11	Not yet assessed ⁴⁹
5 Adult level 4: to increase to 36 per cent the proportion of working age adults qualified to at least level 4 by 2014, with an interim milestone of 34 per cent by 2011.	Improvement shown ⁵⁰
6 Higher Education Initial Participation Rate: Increase participation in higher education towards 50 per cent of those aged 18-30, with growth of at least a percentage point every two years to 2010-11	Not yet assessed ⁵¹

⁴⁹ For PSA 2, indicators 1 and 4, performance in prior years suggests the Department is on track to deliver, however, achievements prior to 2008-09 do not count towards the indicator.

⁵⁰ For PSA 2, indicators 2, 3 and 5, this is based on yearly improvement to Quarter 4 2008.

⁵¹ 2008-09 data on the Higher Education Initial Participation Rate is not available until March 2010. UCAS data shows an increase of 7.4 per cent in accepted applicants for university entry between 2007-08 and 2008-09.

PSA Target	Performance in 2008-09
PSA 4 - Promote world-class science and innovation in the UK	Some progress
1 The UK percentage of citations in the leading scientific journals	Improvement shown ⁵²
2 Amount of income generated by UK Higher Education Institutions (HEIs) and Public Sector Research Establishments (PSREs) through research, consultancy and licensing of intellectual property	Improvement shown ⁵³
3 The percentage of UK business with ten or more employees that are 'innovation active'	Not yet assessed
4 The annual number of UK PhD completers in science, technology, engineering and mathematics (STEM) subjects	No improvement shown ⁵⁴
5 The number of young people in England taking A levels in mathematics, physics, chemistry and biological sciences	Improvement shown ⁵⁵
6 Business research and development (R&D) expenditure – the average UK R&D intensity in the six most R&D intensive industries, relative to the US, Japan, France and Germany	Not yet assessed

NOTE

Assessment of progress made against each indicator is the NAO assessment, based upon the narrative included in the 2009 Departmental Report.

⁵² For PSA 4, indicator 1, the latest data is for 2007, which shows that progress has been made. The Department expects funding increases over the last decade to lead to continued good performance.

⁵³ For PSA 4, indicator 2, this is based on the latest available data (2006-07).

⁵⁴ PSA 4, indicator 4, assessment is based on 2007-08 data.

⁵⁵ Latest data for 2008 shows that the target for maths has been achieved, progress has been seen in chemistry and biology, however the target for physics remains challenging.

Annex 3

Departmental performance against Departmental Strategic Objectives

DSO Target	Performance in 2008-09
DSO 1 - Accelerate the commercial exploitation of creativity and knowledge, through innovation and research, to create wealth, grow the economy, build successful businesses and improve quality of life	Not yet assessed
1 Indicators 2 and 6 under PSA 4 apply	See Annex 2
2 Regional breakdown of percentage of UK businesses with ten or more employees that are 'innovation active'	Not yet assessed
3 Key knowledge transfer outputs from public sector research base	Improvement shown ⁵⁶
4 Basket of measures of take-up of intellectual property	Not yet assessed
DSO 2 - Improve the skills of the population throughout their working lives to create a workforce capable of sustaining economic competitiveness, and enable individuals to thrive in the knowledge economy	Not yet assessed
1 Indicators 1-6 under PSA 2 apply	See Annex 2
DSO 3 - Build social and community cohesion through improved social justice, civic participation and economic opportunity by raising aspirations and broadening participation, progression and achievement in learning and skills	Not yet assessed
1 Indicators 1-6 under PSA 2 apply	See Annex 2

⁵⁶ Most recent data (2007) shows year-on-year variation in the indicators behind this measure, however the majority have increased.

DSO Target	Performance in 2008-09
<p>DSO 4 - Pursue global excellence in research and knowledge, promote the benefits of science in society, and deliver science, technology, engineering and mathematics skills in line with employer demand</p>	Strong progress
<p>1 Indicators 1, 4 and 5 under PSA 4 apply</p>	See Annex 2
<p>2 Survey of public attitudes to science</p>	Improvement shown
<p>3 Number of STEM graduates</p>	Improvement shown ⁵⁷
<p>DSO 5 - Strengthen the capacity, quality and reputation of the further and higher education systems and institutions to support national economic and social needs</p>	Some progress
<p>1 Balanced scorecards for measuring FE and HE sector performance are under development</p>	Improvement shown
<p>DSO 6 - Encourage better use of science in Government, foster public service innovation, and support other government objectives which depend on DIUS expertise and remit</p>	Not yet assessed
<p>1 Policy making is underpinned by robust scientific evidence and long term thinking</p>	Not yet assessed
<p>2 International comparisons of growth in, and benefit from international collaboration in science.</p>	Not yet assessed
<p>3 Use by Government and others of evidence generated by Foresight projects.</p>	Not yet assessed

NOTE

Assessment of progress made against each indicator is the NAO assessment, based upon the narrative included in the 2009 Departmental Report.

⁵⁷ Based on the most recent data (2007-08) available.

Annex 4

Departmental performance against Spending Review 2004 Public Service Agreements

PSA Target	Assessment in 2008-09
PSA 2 (DTI) – Science and Innovation	
Improve the relative international performance of the UK research base and increase the overall innovation performance of the UK economy, making continued progress to 2008, including through effective knowledge transfer among universities, research institutions and business	
1 World-class research at the strongest centres of excellence in the UK	On course ⁵⁸
2 Sustainable and financially robust universities and public research institutions	On course
3 Greater responsiveness of the research base to the needs of the economy and public services	On course ⁵⁹
4 Increasing business investment in R&D and increasing business engagement	On course ⁶⁰
5 A more responsive supply of science, technology engineering and maths (STEM) skills to the economy	On course ⁶¹
PSA 13 (DfES) – Tackle the adult skills gap	
Increase the number of adults with the skills required for employability and progression to higher levels of training through:	
1 improving the basic skills levels of 2.25 million adults between the launch of Skills for Life in 2001 and 2010, with a milestone of 1.5 million in 2007; and	Met
2 reducing by at least 40 per cent the number of adults in the workforce who lack NVQ2 or equivalent qualifications by 2010.	Slippage ⁶²
Working towards this, one million adults in the workforce to achieve level 2 between 2003 and 2006.	Met

⁵⁸ Overall assessment is based on performance against 2006 targets.

⁵⁹ Based on the latest available data (2006-07), which indicates an upward trend in the majority of measures.

⁶⁰ Based on the latest available data (2007), which indicates an upward trend in the majority of measures.

⁶¹ Assessment is based on 2005 data, which is the most recent available.

⁶² The Department states in its 2009 Departmental Report that achieving this target remains challenging, as it requires a further 1.2 million adults with at least level 2 qualifications in the workforce by 2010.

PSA Target

**Assessment
in 2008-09**

PSA 14 (DfES) – Raise and widen participation in higher education

On course

- 1 By 2010, increase participation in higher education towards 50 per cent of those aged 18 to 30;
- 2 make significant progress year-on-year towards fair access; and
- 3 bear down on rates of non-completion.

On course⁶³

On course⁶³

On course⁶⁴

Source: DIUS Departmental Report 2009.

NOTE

Assessment of progress made against each indicator is the NAO assessment, based upon the narrative included in the 2009 Departmental Report

63 For PSA 14, indicators 1 and 2, this is based on 2007-08 data.

64 Based on 2006-07 data.

Annex 5

NAO reports relating to the Department

The NAO has recently completed and is currently undertaking a number of Value for Money reviews which include consideration of the work of the Department. Key published reports which are relevant to the Department as it works towards achievement of its objectives, and which are discussed in this report, are as follows:

- *Improving procurement in FE colleges in England* (October 2006);
- *Staying the course: The retention of students in Higher Education* (July 2007);
- *Meeting Needs: The Offenders' Learning and Skills Service* (March 2008);
- *Skills for Life, Progress in improving adult literacy and numeracy* (June 2008);
- *Widening Participation in Higher Education* (June 2008);
- *Renewing the physical infrastructure of English Further Education colleges* (July 2008);
- *Innovation across central government* (March 2009);
- *Train to Gain: Developing the skills of the workforce* (July 2009).